

INFORMED BUDGETEER

@ Fiscal New Year 2002 Countdown @ Calendar Days to October 1, 2001 (From September 4)	
Total Days	27
Less:	
Religious Holidays (2 days)	25
Fridays & Mondays before/after Non-Leg. Periods (2)	23
Remaining Saturdays & Sundays in Sept. (8)	15
LEGISLATIVE DAYS REMAINING 'TIL FY 2002	15

Source: CBO, OMB
rounding

Totals may not add due to

OMB/CBO REVISE SURPLUS PROJECTIONS AS EXPECTED

- While you were gone, OMB submitted its Mid-Session Review of the President's Budget and CBO published its summer update of the Budget and Economic Outlook. Both reports delivered the obvious news: projections of the surplus are down compared to the previous sets of projections because of the slowing economy and because of enacted spending and tax reduction legislation.

OMB vs. CBO MIDSESSION BASELINE (Outlays and Revenues, \$ in Billions)			
	2001	2002	2002-2011
OMB Baseline			
Discretionary			
Defense	304	317	3,628
Nondefense	347	369	4,232
Total Discretionary	652	686	7,859
Mandatory			
Social Security	430	453	5,775
Medicare	214	224	2,946
Medicaid	130	143	2,133
Other	225	263	3,063
Total Mandatory	999	1,083	13,917
Net Interest	204	180	1,140
Total Outlays	1,855	1,949	22,916
Total Revenues	2,013	2,135	26,758
Surplus	158	187	3,842
Social Security	157	171	2,535
Non-Soc. Sec.	1	15	1,307
CBO Baseline			
Discretionary			
Defense	305	323	3,637
Nondefense	342	366	4,205
Total Discretionary	647	689	7,842
Mandatory			
Social Security	429	453	5,736
Medicare	214	226	3,175
Medicaid	131	143	2,073
Other	229	267	3,070
Total Mandatory	1,003	1,089	14,054
Net Interest	207	179	1,187
Total Outlays	1,858	1,958	23,083
Total Revenues	2,011	2,134	26,479
Surplus	153	176	3,397
Social Security	163	176	2,551
Non-Soc. Sec.	-10	1	846
CBO less OMB			
Discretionary			
Defense	1	6	9
Nondefense	-5	-2	-27
Total Discretionary	-4	4	-18
Mandatory			
Social Security	-1	1	-39
Medicare	0	2	229
Medicaid	1	0	-60
Other	4	4	7
Total Mandatory	4	7	137
Net Interest	3	-1	48
Total Outlays	3	9	167
Total Revenues	-2	-1	-279
Surplus	-5	-11	-445
Social Security	6	4	17
Non-Soc. Sec.	-11	-15	-462

- While the news isn't surprising, what may surprise many budgeteers is how similar are the baseline surplus projections of the two agencies: for 2001, there is only a \$5 billion difference, and for 2002, the difference in the unified surplus is only \$11 billion. Spending decisions yet to be made for 2002 will certainly alter the 2002 estimate. OMB suggests that under the President's policies, the surplus would be reduced by only \$14 billion more.

OMB MIDSESSION BASELINE vs. POLICY (Outlays and Revenues, \$ in Billions)						
	Baseline		Policy		Difference	
	2002	02-11	2002	02-11	2002	02-11
Discretionary						
Defense	317	3,628	330	3,803	13	175
Nondefense	369	4,232	370	4,159	1	-73
Total	686	7,859	699	7,962	14	102
Discretionary						
Mandatory	453	5,775	453	5,775	0	0
Social Security	224	2,946	224	3,136	0	190
Medicare	143	2,133	143	2,134	0	1
Medicaid	263	3,063	262	3,081	-1	19
Other	1,083	13,917	1,082	14,127	-1	210
Total Mandatory	180	1,140	181	1,243	0	103
Net Interest						
Total	1,949	22,916	1,962	23,331	13	415
Total Outlays	2,135	26,758	2,135	26,444	-1	-314
Total Revenues						
Total	187	3,842	173	3,113	-14	-729
Surplus	171	2,535	171	2,538	0	3
Social Security	15	1,307	1	575	-14	-732
Non-Soc. Sec.						

Source: OMB

Totals may not add due to rounding

BACK-TO-SCHOOL SURPRISE BUDGET QUIZ

(or more accurately, an essay question)

Question: The President has said that we have to "stick to the budget." Senate Budget Committee Chairman Conrad has warned that he will "enforce the budget" and will not allow money to be spent if the budget doesn't allow it. But what exactly does it mean to "enforce the budget"?

Answer: To review, the budget that President Bush submitted in April was the Administration's request. As much as he'd like to see it fully implemented, clearly, the 2002 Budget Resolution did not adopt his plan in full and thus he can not expect that Congress will "stick to" his budget request.

So if budgeteers are seeking the locus of enforcement, wouldn't it make sense to look at how the law calls for "the budget" to be enforced? Alas, the law limps behind budget reality. Why? Because as the past two years have shown, neither Congress nor the President has believed that the existing laws are relevant to current fiscal demands. The law (Deficit Control Act) says that for 2002, if the net effect of all enacted legislation on the pay-as-you-go scorecard increases the deficit or reduces the surplus, then a sequester of certain mandatory programs must follow. Over the August recess, CBO's sequester report estimated this number to total \$132.9 billion.

Also, for discretionary spending, the law says that the cap for 2002 is nearly \$550 billion in BA and that no more than that may be appropriated without a discretionary sequester. However, no one remotely expects a sequester to materialize because the President and the Congress will almost certainly continue to “wipe clean” any paygo effects from legislation (such as the tax cut or agriculture spending) that has been enacted. Further, the appropriations process is well on its way to appropriating at least \$660 billion in BA for 2002 with no expectation that the final amount will be sequestered back down to \$550 billion. So if the law is not relevant, what is?

Given this, the only context for making informed spending decisions is the Congressional Budget Resolution for 2002, and the only tools with which to enforce it are points of order, for which the House and Senate must turn to its respective Chairman of the Budget Committee regarding applicability, transparency, and consistency. Puzzled, skeptical, or logical budgeteers could go to the head of the class just by wondering – what is the budget resolution these days anyway? And which or how much additional spending is still allowed?

When the Congress adopted the budget resolution in May, it was built on CBO’s winter baseline estimates and economic assumptions, with all policies assumed in the resolution estimated relative to that baseline. The following table shows where we stand based on legislation enacted to date, using those estimates. The table reflects only enacted legislation, rather than all the assumptions contained within the budget resolution or proposals made by the President, because the resolution only prohibits the release of additional monies in the reserve funds if legislation “when taken together with all other previously-enacted legislation” reduces the on-budget surplus below the level of the Hospital Insurance (HI) Trust Fund surplus.

MEDICARE HI SURPLUS SCORECARD (\$ in Billions)		
	2001	2002
SBC March Baseline		
Unified Surplus	281.118	312.934
On-budget	124.942	142.097
Off-budget	156.176	170.837
Discretionary ^a	1.389	4.576
Mandatory ^b	5.507	6.234
Net Interest	1.808	5.388
Tax Cuts ^c	-73.807	-31.536
Total Change	82.511	47.734
Total including legislation		
Unified surplus	198.607	265.200
On-budget	42.431	94.363
Off-budget	156.176	170.837
HI Surplus	28.714	35.899
On-budget less HI surplus	13.717	58.464

Source: SBC Republican staff

^a Includes effects of H.R. 2216

^b Includes effects of H.R. 1836 (JCT scoring), S. 657, S. 1029, H.R. 2213 and H.R. 93.

^c Includes effects of H.R. 1836 (JCT scoring), H.R. 1727, and S. 1029.

The table shows that for 2002, under the only set of numbers the law allows to be used for enforcing the budget resolution, the on-budget surplus is still \$58.5 billion larger than the so-called “Medicare HI surplus”. Teacher’s pet budgeteers will raise their hands, say “ooooh oooooh,” and then argue that those are “old numbers” and that, under new estimates, the Medicare surplus is already spent for 2002 (or is it? Who knows because they won’t prove it, they just keep saying it’s so).

It’s true – an update of the baseline assumptions and policy estimates

in the budget resolution was contemplated explicitly by that document. On page 86, in the “Allocations” section of conference report 107-60 it states that: “the Conferees intend that the Chairmen...use CBO’s estimates (that are consistent with the revised baseline) for purposes of enforcing the budget resolution.” In that context, the revised baseline refers to the May baseline (which reflected technical changes only), which had been delayed from March because of the late release of the President’s Budget, but which is the usual basis for the budget resolution. It was never contemplated that the budget resolution be further updated and enforced for the CBO summer update (which includes legislative, technical, and economic revisions) because that has rarely happened in the past. And when it has, it was the result of a specific directive contained in the legislative language of the conference report (see, for example, section 213 of the 2001 budget resolution relating to the “summer bump” for additional tax cuts).

With the change in the majority in the Senate, there has been a move, however incomplete or ad hoc, towards adopting new estimates as they arise. After CBO published its revised baseline in May, the new Budget Committee Chairman, Senator Conrad, said, for example, that he would be obliged to withhold amounts in reserve funds because the new CBO numbers would show, according to his legislative crystal ball, that some of the Medicare surplus would be spent. However, he has not formally invoked his authority under the budget resolution to switch to the May revised baseline.

At the same time, other members or their staff have been informed that for certain legislation (such as the technical reserve for the student loan interest rate fix), the Budget Committee will score the cost using CBO’s May estimates. When such estimates exceed the amounts assumed in the reserve fund (which were based on the earlier estimates of the identical policy), the Committee paradoxically claims it has no authority to alter the dollar amounts assumed for those reserve funds in the budget resolution, even though CBO’s estimates of those policies change with each new baseline that CBO publishes.

The inconsistent use of baseline estimates and economic assumptions for both rhetorical and enforcement purposes has only been exacerbated by a deliberate confusing of various possible legislative scenarios. As the *Bulletin* sees it, there are a number of possible legislative outcomes for this fall. While points of order are enforced based on the budget resolution, we acknowledge that legislative decisions will also be made in a political context that considers current estimates of the on-budget surplus.

The starting point for evaluating whether points of order apply or whether reserve funds may be released must be legislation that has been enacted to date (called “current level”), regardless of whether that legislation was assumed in the budget resolution or not. It is the remaining on-budget surplus or remaining committee allocation, after taking into account enacted legislation **only** (and relative to the budget resolution baseline), that determines whether a reserve fund may be released or whether points of order apply, respectively.

Legislation that was assumed in the budget resolution, but has yet to be enacted into law, represented the will of the Congress when a majority voted to include it in the Congressional budget plan. But it is not appropriate to account for the costs of any of these policies for enforcement purposes until the legislation is actually enacted (and much of it does not seem likely).

Finally, there are other legislative proposals championed by Congress or by the President (think education or defense spending) that were not numerically included in the budget resolution. Because it will take a supermajority of Senators to enact those proposals (because it will require legislating an increase in the discretionary cap), clearly there will be a thoughtful discussion

about their effect on the non-Social Security surplus.

Now that CBO's May baseline, after only three months, is being revised by the CBO summer update, Senator Conrad seems to want to use the even gloomier numbers for selective budget enforcement. *But the budget resolution provides him with no authority to do so (to use those numbers would require that the Congress adopt a revised budget resolution).* **While constantly saying things are worse isn't relevant for enforcing the budget resolution, what it can do is help Congress appreciate where we stand with respect to the non-Social Security surplus.**

But where we stand with respect to the non-Social Security surplus can only be useful if it is presented with the goal of transparency and consistency, rather than as a politically charged and rhetorical attack. Right now, budgeteers (dare we say the entire Senate?) don't know how Senator Conrad is evaluating pending legislation relative to the budget resolution because he has not presented anywhere a recasting of the budget resolution using a consistent set of revised estimates. So the *Bulletin* ends this Budget Quiz Answer with a question: when will budgeteers get to see how the Chairman will represent the table above using his preferred, and we hope internally consistent, set of estimates for transparently enforcing the budget resolution, and what authority will he invoke to do so?

CALENDAR

September 6: HEARING "OMB's Mid-Session Review and the Budget and Economic Outlook." Witness: Mitchell E. Daniels, Director, Office of Management and Budget. **SH-216 9:30 a.m.**